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National
Home Center News

Vol. 9, No. 25 The newspaper for retailers serving homeowners and contractors. Published by Lebhar-Friedman Inc. December 12, 1983

PAYLESS CASHWAYS:
ON THE THRESHOLD OF POWER RETAILING

Payless Cashways has emerged as a model of success in the home center industry, envied for its advertising, the competence of its store managers and sales that grew at a 29% compound annual rate over the past decade.

But in the last two years, the company has been developing a sophisticated attack plan that gives more powerful marketing tools to its managers in the field, which should catapult Payless into the ranks of the nation's pre-eminent retailers.

A *National Home Center News* Chain Profile

NHCNews Briefs

Industry Update

Court approves Wickes plan

SANTA MONICA, Calif.—A Federal bankruptcy court has approved the previously disclosed reorganization plans for Wickes Cos.' Gambles Credit Corp. and its closed mail-order catalog, Alden Inc., subsidiaries.

Wickes officials are still working with creditors on a total plan of reorganization pertaining to home center industry creditors that could result in an agreement in principle by late December (*NHCN*, Oct. 24).

The Gambles Credit plan calls for repayment of about $300 million in debt and the Alden plan provides for the settlement of the company's debt for 45¢ on the dollar. Alden debt is estimated at about $32 million.

House Works opens 7th store

METAIRIE, La.—House Works opened a 62,000-sq.-ft. store here last month, giving the seven-unit W. R. Grace-run chain its fifth store in the New Orleans market.

The chain, which made its debut in New Orleans with a 42,000-sq.-ft. unit in Harvey, La., and a 70,000-sq.-ft. outlet in Kenner, La., in March and later opened stores in Chalmette and Marrero, La., also operates units in Bradenton and Sarasota, Fla.

The opening coincided with the debut of a Handy Dan in Denton, Tex., the chain's first in the market which is north of Dallas/Fort Worth. The unit also features a warehouse format and 30,000 sku's, officials said.

Lumberjack's Steiner joins Knox

SACRAMENTO, Calif.—Jay Steiner, a member of the founding family of seven-unit Lumberjack which was sold to Payless Cashways last January, has resigned and accepted a directorship position on the board of Knox Lumber, the nine-unit St. Paul home center chain that is being spun off as a public company (*NHCN*, Nov. 21).

Steiner, who originally told *NHCN* he would remain employed as a consultant to Payless until January 1984, said he left early because "it would be awfully awkward for me to be sitting here knowing what Payless plans and then go to Knox. . . . It is sort of like being a spy."

Steiner's brother Tim and brother-in-law Gary Levi are developing several business ventures and are reportedly planning to continue their home center industry involvement. The Steiners are contractually unable to establish competitive retail outlets in markets served by Payless-owned stores for five years.

Scotty's sales up 34%

WINTER HAVEN, Fla.—Chainwide sidewalk sales promotions and an improved economy helped Scotty's boost sales in the four-week period ended Oct. 29 by 34% to $31.6 million compared to a year ago, president Ray H. Cooney said.

The sidewalk sales occurred in the first week of October compared to the last week of September last year and helped increase consumer sales which claimed a substantial part of the 34% gain, Cooney said.

In another development, Scotty's shareholders at the company's annual meeting on Oct. 28 approved an amendment to the articles of incorporation to increase the number of authorized common shares from 20 million to 50 million.

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National Home Center News (ISSN 0192-6772) is published biweekly, every other Monday, 25 times a year, beginning with the first Monday in January through the fourth Monday in November, monthly in December; by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Manufacturers, schools, libraries and all others: $20 a year ($21 in Canada). Foreign subscriptions: Airmail only, $100 per year.

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Vol. 9, No. 25 December 12, 1983

Sutherland expands whse plans

INDIANAPOLIS—Sutherland Lumber was scheduled to open an 80,000 to 100,000-sq.-ft. unit here on Nov. 23, in which the bulk of its merchandise will be displayed on 8-ft. warehouse racks.

The 82-unit Kansas City, Mo., chain is moving toward greater use of warehouse-style retailing as it acts on plans to expand to 92 stores by the end of 1984. It has already opened an 80,000-sq.-ft. store in Tulsa, Okla., on Sept. 1 using a similar display format and layout.

It also appears, though, that only some of the 33 family members running the chain favor the warehouse concept, and it is still premature to assess how many of its new stores next year will be warehouses.

In fact, it cannot even be said there will be uniformity among the warehouse units Sutherland does open. Its 84,000-sq.-ft. Dayton, Ohio, store, opened Sept. 18 (*NHCN*, Sept. 26), uses 3-ft., 4-ft., 5-ft. and 8-ft. fixtures to display its in-store inventory, and resembles a more traditional Sutherland Lumber unit more than its warehouse counterpart.

"It's kind of like going fishing," said chain partner Craig Sutherland to explain the different merchandising philosophies among the chain's co-owners. "You can get three or four people in the same boat, but they all may be using different lures."

Neither Kent Sutherland nor Christopher Sutherland—the partners who opened the Indianapolis and Tulsa stores, respectively—would comment about the use of warehouse racking in their units, or whether they would use this form of display in future store openings. Craig Sutherland said lower gondolas were used in Dayton for security purposes.

Interestingly, none of the warehouse stores advertised itself as a "Warehouse Plus" unit, which Sutherland called its 40,000-sq.-ft. store in Euless, Tex.

Craig Sutherland noted that the chain would soon open a nonwarehouse 45,000-sq.-ft. unit in Midvale, Utah, outside Salt Lake City, which would have lower gondolas. He is also looking at four sites in the Midwest for expansion: two that are previously occupied buildings and two for new store construction. He would not comment on the potential size of these units.

McCoy's opens 50th unit in chain

SAN MARCOS, Tex.—McCoy's Building Supply Centers held the largest chainwide sales promotion in its history from Nov. 7-19 in conjunction with the opening of its 50th store, located in San Antonio.

Entitled "Sellabration," the promotion began with the distribution of 3.5 million 16 page newspaper inserts to homes in 41 Texas cities. Items advertised in the tabloids were on sale at all units in the chain.

Additionally, run of press advertisements in local papers, along with 30 and 60 second radio spots, marked the days prior to the Nov. 7 grand opening.

The new store, the fifth for McCoy's in San Antonio, is similar to others in the chain. A lumberyard adjoins a 15,000-sq.-ft. sales area and an 8,000-sq.-ft. warehouse.

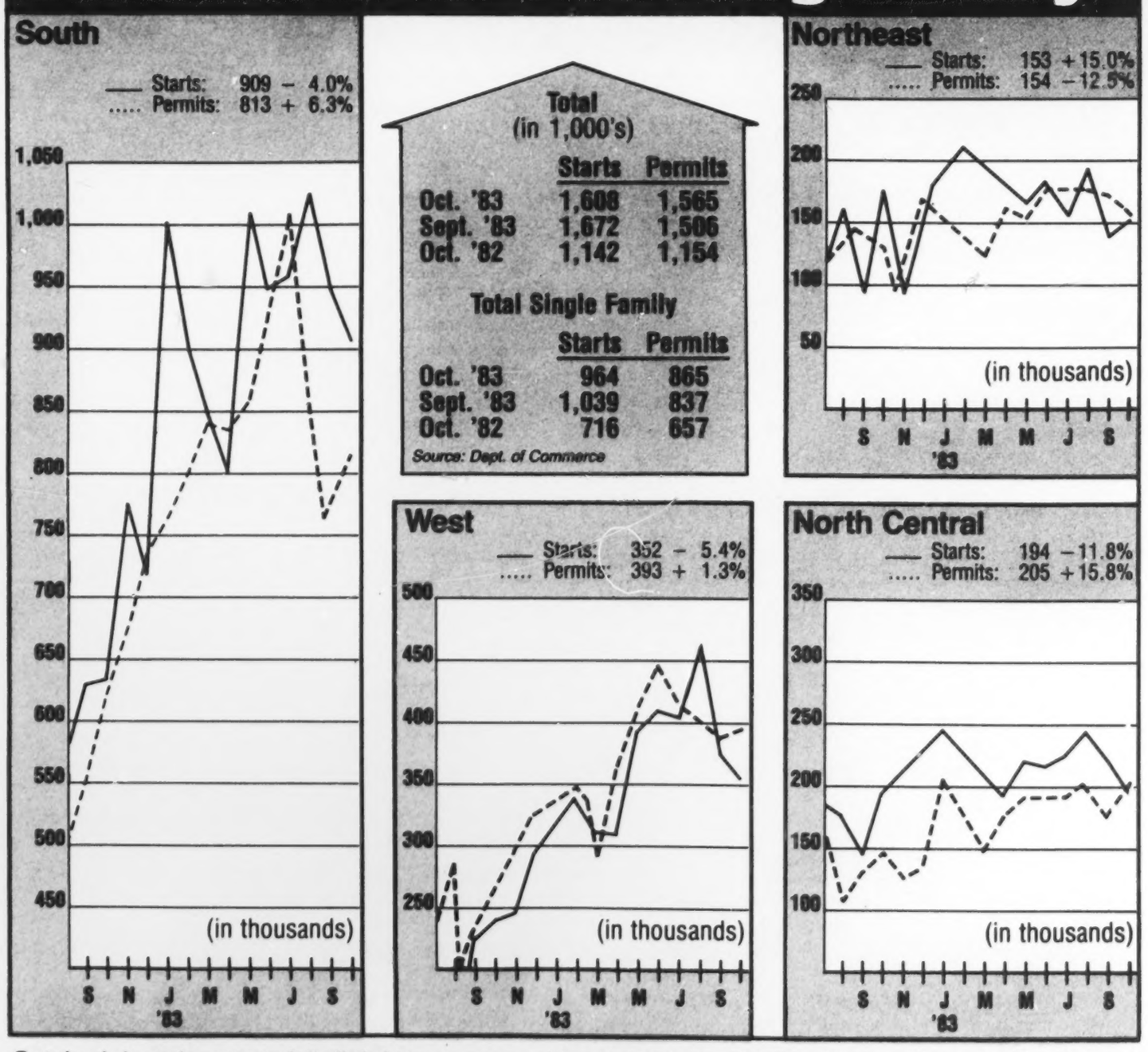
At the new store, disc jockeys from local radio stations KCOR, a Spanish language station and KTSA conducted regular live remote reports.

The company said it has purchased additional land for more openings early in 1984.

McCoy's Building Supply Centers grew to a 50-unit chain with the Nov. 7 opening of this store in San Antonio.

Photo courtesy McCoy's

October home-building activity



October's housing starts fell slightly to a seasonally adjusted rate of 1.61 million units, a decline of 3.8% over September's figures. However, one region, the Northeast experienced a 15% increase over September. Building permits also dropped slightly nationally by 3.9% to a seasonally adjusted figure of 1.56 million units. This was due to the large decrease in permits in the Northeast, a drop of 12.5% over the previous month's figures. The number of permits increased in all other regions, the highest occurring in the North Central with 15.8%.

FUTURES

Two weeks ended Nov. 11, 1983

	High	Low	Close	Previous Week	Open* Interest	Contract High	Contract Low
LUMBER (CME)—130,000 bd. ft. spruce-pine-fir 2x4's; $ per 1,000 bd. ft.							
Nov.	170.90	155.20	165.50	165.30	1,096	229.90	155.20
Jan. '84	185.30	172.00	181.70	178.90	5,113	234.00	172.00
March	198.80	187.50	196.30	193.60	1,383	240.50	184.80
May	209.40	198.50	206.10	202.50	166	245.50	195.30
July	217.20	207.30	214.10	211.00	54	252.50	204.00
Sept.	223.50	212.50	219.50	216.00	21	236.00	209.80
Nov.	222.50	213.50	220.50	219.00	27	229.00	213.00
PLYWOOD (CBT)—76,032 sq. ft. ½-in. ext. 4/5-ply; $ per 1,000 sq. ft.							
Nov.	197.00	184.00	194.00	194.50	38	225.60	177.20
Jan. '84	199.90	188.00	196.40	196.70	312	223.00	179.70
March	203.80	192.20	200.50	200.80	186	225.00	183.00
May	201.00	196.10	—	201.00	56	207.00	187.50
July	No	trading	—	—	31	210.00	190.50
Sept.	No	trading	—	—	0	212.50	203.10

Total Contract Vol. (Through 11/11): 24,209 — **Previous Two Weeks: 32,554**
Total Open Interest (As of 11/16): 6,024 — **Previous Week: 6,743**
Cash Price: $160.72 — **Previous Week: $156.80** — **Year Ago: $148.96**

Total Contract Vol. (Through 11/10): 716 — **Previous Two Weeks: 1,358**
Total Open Interest (As of 11/10): 623 — **Previous Week: 710**
Cash Price: $191.10 — **Previous Week: $192.08** — **Year Ago: $187.18**

COMMODITY RESEARCH BUREAU INDEX:	This Week	Previous Week	Year Ago
	271.9	270.3	233.4

CME—Chicago Mercantile Exchange — CBT—Chicago Board of Trade
*Figures for Thursday, Nov. 10.
Open Interest is the number of outstanding contracts for each delivery month not liquidated by an offsetting transaction or fulfilled by delivery.

WASHINGTON VIEW

Floor coverings manufacturer seeks relaxation of RPM order

By Ken Rankin
Washington correspondent

Encouraged by shifting Reagan Administration antitrust enforcement policies, Armstrong has asked the Federal Trade Commission to relax an 18-year-old order prohibiting the manufacturer from engaging in resale price maintenance conspiracies with wholesalers of floor covering products.

Rankin

If approved by FTC, Armstrong's petition would not permit the Lancaster, Pa.-based supplier to directly fix resale prices charged by home center stores in the United States.

But it would open the door for Armstrong to engage in Fair Trade-style RPM activities against retailers in Canada and other countries, while at the same time enabling the firm to resume a domestic price rebate scheme which was struck down as discriminatory nearly two decades ago.

In addition, the changes proposed by Armstrong would free the giant flooring manufacturer to discontinue direct sales to home center chains and other direct-buying retailers.

Armstrong has been prohibited from distributing certain floor coverings through wholesalers because of alleged anticompetitive practices in the past, and according to company attorneys the manufacturer is losing sales because of the requirement that it deal directly with retailers.

The Federal antitrust prohibition against such Armstrong pricing practices was the result of an FTC complaint issued in the mid-1960's charging the manufacturer with conspiring with its wholesalers to "fix the prices, terms and conditions of sale" of linoleum, asphalt tile, vinyl corlon and other floor covering materials to retail stores.

Charging that the firm's RPM practices "hindered, suppressed, lessened and eliminated competition" in the flooring products market, FTC ordered Armstrong to permanently "cease and desist" from these activities.

But in addition to fixing resale prices by retail stores, the commission's complaint also alleged that Armstrong violated the Federal Robinson-Patman Act by "discriminating in price, directly or indirectly, between different purchasers of its floor covering products," and by selling flooring materials to some purchasers "at substantially higher prices" than those charged to competing distributors.

Although Armstrong did not ask FTC to eliminate the longstanding prohibition against resale price fixing in the United States market, the manufacturer did ask permission to resume these activities overseas.

In seeking to limit the resale price maintenance ban to domestic sales, Armstrong told FTC that "there is no sound reason for the commission to prohibit RPM practices in foreign countries where such practices are permissible under the foreign country's own laws."

At the same time, however, Armstrong asked for additional modifications in the 1965 consent order which could have a direct impact on the company's distribution practices in the United States.

One change requested by the manufacturer would eliminate the order's restriction on a variety of "nonpricing" trade restraints, "such as the prohibition against distributing Armstrong's Floor Fashion Center line of products through wholesalers," FTC officials said.

"The company claims that the 'cumbersome' method of selling directly to retailers has reduced sales" of Armstrong floor coverings, the commission added.

In asking that the 18-year-old restrictions against price discrimination be eliminated altogether, the manufacturer argued that these activities are no longer considered illegal under the agency's shifting enforcement standards.

Home center chains have until this week to submit formal comments on the petition to FTC.

* * *

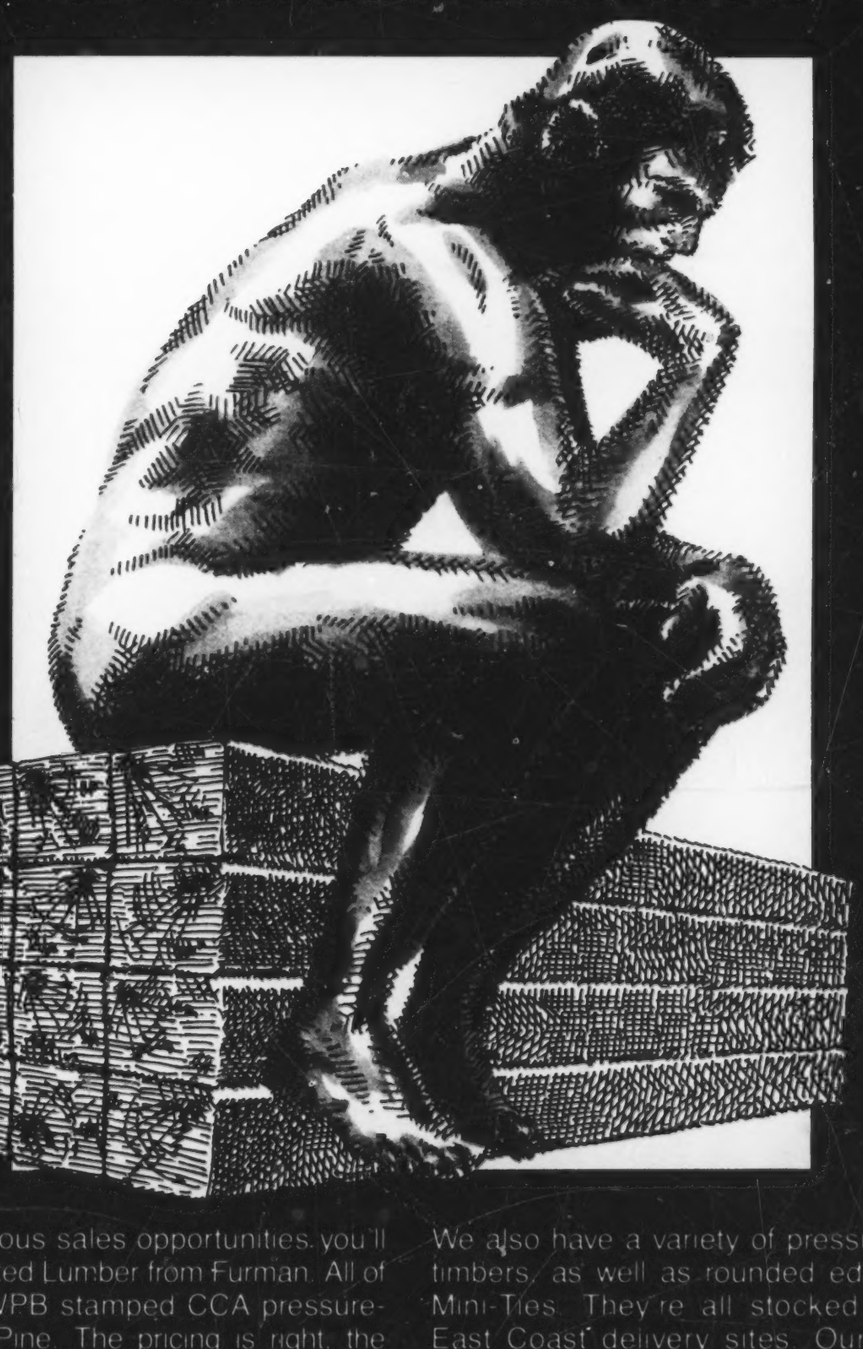
Underlining Armstrong's petition for "relief" from the 1965 RPM/price discrimination order: An increasing willingness on the part of Reagan Administration FTC appointees to "renegotiate" past antitrust orders prohibiting distributional trade restraints against retailers.

A new analysis of FTC enforcement activity prepared for Congress by the Small Business Legislative Council shows that during the past three years commission officials have modified at least 29 antitrust consent orders issued during the 1960's and 1970's (including no less than six orders prohibiting resale price fixing by manufacturers).

In contrast, during the four Carter Administration years FTC renegotiated just six standing antitrust consent orders, only one of which involved an RPM violation.

"WHEN YOU THINK OF TREATED WOOD PRODUCTS THINK OF THE FURMAN SYSTEM"

Another in a series of great thoughts from The Thinker.



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STOCK PRICES

	As of 11/8	52-week High	52-week Low	P/E Ratio
Boise Cascade (NYSE)	38	47⅜	33¾	22
Edison Bros. Stores (NYSE) [Handyman, Homer's]	39⅛	46¾	25¾	11
Evans Products (NYSE) [Alamo Ent., Grossman's, Moore's, Hubbard & Johnson, Lindsley]	12⅞	19½	7	—
Forest City (AMEX)	14	15¾	8⅝	40
W. R. Grace (NYSE) [Angels, Cashway, Channel, Handy City, Handy Dan, Orchard]	44⅞	50⅜	35¾	14
Lowe's (NYSE)	21½	32¾	16⅞	19
Michigan General (AMEX) [Diamond Lumber]	9⅜	14	1⅞	—
Pay 'N Pak (NYSE)	16	24	15¼	15
Payless Cashways (NYSE) [Furrow]	24⅛	34½	19	19
Scotty's (NYSE)	15¼	21⅛	14⅛	15
Southwest Forest Industries (NYSE) [Dunlap's, Knox Lumber]	12¾	16½	9⅞	—
Standard Brands Paint (NYSE)	22½	28¾	17⅞	15

Nasdaq—over-the-counter stocks

		As of 11/8	52-week High	52-week Low	P/E Ratio
Color Tile		17⅜	28	13⅝	—
Hechinger	A	21¾	22¾	19¾	—
	B	21¾	30¾	15⅛	—
The Home Depot		23	31¾	8⅞	—
Pay 'n Save		24⅞	27⅝	13	—

Over-the-counter stocks

	As of 11/8 Bid	As of 11/8 Asked	52-week High (Bid)	52-week Low (Bid)
Erb Lumber	18	20½	25	11
Hines Lumber	30	32	31	15¼
Home Centers of America	10	10¼	15½	5
Home Centers of America [units]	31	32½	51½	13¼
National Lumber	11¼	11¾	13¼	10
Scotts Seaboard [Scott's]	3	3½	5	⅝
Wolohan Lumber	6½	6⅝	10⅛	5

SALES & EARNINGS

Company	Period Ended	Current Sales*	Year-Ago Sales*	% Change	Current Earnings*	Year-Ago Earnings*	% Change
Edison Bros. Stores	10/1-3rd qtr.	$249,302	$222,811	12	$10,395	$4,567	128
Erb Lumber	9/30-3rd qtr.	43,114	29,531	46	1,309	909	44
Hines Lumber	9/30-3rd qtr.	70,947	50,675	40	1,596	628	154
Lowe's	10/28-5 wks.	148,300	115,400	29	—	—	—
Michigan General	9/30-3rd qtr.	40,959	38,782	6	914	– 6,800	—
National Lumber	9/30-3rd qtr.	30,571	26,046	17	902	580	55
Scotty's	10/29-4 wks.	31,642	23,624	34	—	—	—

*$ in thousands

Source: Company reports

Nat'l Lumber net rises 55% in qtr.

SANTA ANA, Calif.—National Lumber produced a 55% increase in net earnings on a 17% rise in sales during its third quarter ended Sept. 30, president Melvin Jaffee said in the company's first quarterly financial report since the completion of an initial 1.5 million-share offering on Oct. 4.

Earnings for the period reached $902,084 on sales of $30.6 million.

Jaffee attributed the results to improving economic conditions and National's continuing price-leader strategy in its 12 stores in southern California. The company plans to open four more stores.

Remodeling spurs Pay 'N Pak gain

KENT, Wash.—Pay 'N Pak's store remodeling and remerchandising program (*NHCN*, May 23) has started to pay dividends.

Chairman David J. Heerensperger cited the changes as a major contributor in a 61% increase in net income to $3.1 million on a 41% rise in sales to $74.5 million during the company's second quarter ended Aug. 31 compared to the same period a year ago.

In addition, store-for-store sales increased 33% in the quarter.

The 100-store chain will complete the remerchandising, which covered about half of the company's stores through the first two quarters, in the remainder of the outlets by the close of the fiscal year in February, Herrensperger said.

Major changes

The changes include the introduction of lumber and building materials and lawn and garden products in all stores, elimination of automotives and sporting goods, expansion of selections in hardware, paint, tools and millwork and higher gondolas.

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In response to increased buyer activity, much in evidence at the August National Hardware Show, this new product momentum continues to build for fresh introductions at the 1984 Winter National Hardware & Home Center Show and Hardlines Conference.

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B ☐ Retailer
C ☐ Manufacturer
D ☐ Mfgrs. Agent
E ☐ Import/Export
F ☐ Other:

TITLE/FUNCTION
A ☐ Owner/CEO/Pres.
B ☐ VP/GM/Div. head
C ☐ Merch. Mgr.
D ☐ Buyer
E ☐ Other:

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B ☐ Independent Wholesaler
C ☐ Co-op/Chain Headquarters

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B ☐ Lawn & Garden
C ☐ Housewares
D ☐ Hand & Power Tools
E ☐ Automotive
F ☐ Plumbing
G ☐ Electrical
H ☐ Bldg. Supply materials/tools
I ☐ Heating/cooling
J ☐ Outdoor Living
K ☐ Sporting Goods
L ☐ Paints/sundries
M ☐ Wall coverings
N ☐ Floor coverings
O ☐ Ceiling products
P ☐ Lumber/plywood
R ☐ Furniture: KD, outdoor, indoor
S ☐ Major appliances
T ☐ Kitchen cabinets
U ☐ Bathroom fixtures

RETAILERS ONLY
Check 1 of each
A ☐ Hardware store
B ☐ Home Center
C ☐ Lawn & Garden/patio
D ☐ Mass Merchandiser/ Disc. store
E ☐ Lumber/Bldg. supplies
F ☐ Automotive supplies
G ☐ Other:

NUMBER OF STORES
H ☐ One store
I ☐ 2 - 4 stores
J ☐ 5 or more stores

TOTAL ANNUAL SALES
K ☐ up to $500,000
L ☐ $500M to $1 million
M ☐ 1 to 5 million
N ☐ over 5 million, indicate to nearest million:

TYPE OF OPERATION
O ☐ Co-op/Member Dealer
P ☐ Independent
R ☐ Chain

Solid 3rd qtr. for Evans' retail

PORTLAND, Ore.—Consumer spending continued to rise and contractor sales rebounded from a year ago during the third quarter to help push operating income up 16% and revenues up 17% for Evans Products' retail group, officials reported.

The group's earnings rose to $25.1 million from $21.7 million in the third quarter of 1982 while revenues increased to $273.9 million from $233.8 million a year ago, they noted.

However, as in past periods, the impressive retail results failed to put Evans as a whole in the black.

The company lost $6 million in the quarter, an improvement over the $10.7 million net loss in the third quarter last year but still resulting in nearly $25 million in losses so far this year. Company revenues did rise 7.5% to $375,963,000 in the most recent three-month period.

The main contributors to the third quarter loss were Evans' transportation systems and industrial group, which is suffering from a depressed railcar market, underutilization of its lease fleet and a $4.8 million loss relating to a short-line railroad's financial difficulties, and its home finance subsidiary.

Erb Lumber net climbs in 3rd qtr.

BIRMINGHAM, Mich.—A 46% rise in revenues helped Erb Lumber increase its net profit by 44% to $1.3 million in the third quarter compared to last year, officials reported.

Sales to builder customers led the way to the rise in revenues to $43.1 million in the quarter as they have in the first nine months of the year, they noted. Erb revenues are up 43% to $103.7 million for the first three quarters of the year to help push profits to $2.2 million.